Educating Americans about Retirement Savings
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The Center for Retirement Education

When it comes to retirement education, are people "do-it-yourselfers?"

Historically, the answer has been "no" - especially regarding saving and investing for the future. What exactly is "retirement education?" It is the effort to provide people with financial tools and sufficient information about the amount of money they will need to acquire in personal savings. This is necessary to supplement their Social Security and pension plans in order to assure dignity and independence during retirement.

For consumers, what is their motivation to action?

Our company felt that retirement education was so critically important that, in 1995, it established The Center for Retirement Education. As part of its mission, The Center is concerned with the financial education of our current clients utilizing the counsel of our Retirement Planning Specialists throughout the nation and with giving retirement planning seminars. Individual counseling creates better savings and investment decisions as well as higher participation rates.

By determining one's Retirement Income Gap, calculating the paycheck comparison, comparing alternative ways to save, and understanding the benefit of employer thrift plans, people are motivated into action for their future "Golden Years."

Retirement Income Gap

The Retirement Income Gap is the shortfall between the amount of retirement income generated and retirement expenses. This gap serves as a wake-up call to people as they realize they may not have planned adequately for their retirement years.

Since changes in marital status, family growth, and employment can affect benefits, VALIC encourages people to investigate their Social Security and pension benefits at least every three years.

Paycheck Comparison

Once the Retirement Income Gap is determined, then the question is "how much do I need to save monthly?" This paycheck analysis illustrates the benefits of pre-tax, tax-deferred savings compared to conventional savings.

Assume the following information:

- $1000 gross paycheck, 0 $100 savings, and 0 28% tax bracket.
- $100 savings, and
- 28% tax bracket.

Taxes of $280 are paid immediately. The resulting $720 minus $100 for conventional savings leaves a final net pay of $620. One of two things happens when saving in a pretax, tax-deferred program such as IRA, 401(k), and 403(b):

1. If the same amount is saved as in a conventional manner, the individual will have more take-home pay; or

2. The individual will save more money on a pre-tax basis, and the net pay will be the same as in the conventional plan.

Therefore, pre-tax, tax-deferral is a prudent way to allow money to accumulate and compound more quickly. Clearly, the paycheck comparison is a powerful tool that helps motivate a person to not only save, but usually to save MORE, for their retirement needs.

Power of Tax-Deferred Growth

Assuming an 8% fixed rate over a 30-year period: $93,761 accumulates in conventional savings, $141,761 accumulates in a nonqualified plan, and $196,892 accumulates in a tax deferred program. Taxes must be paid when the money is withdrawn, but the individual chooses when to withdraw the money. Typically, in retirement, people are in a lower tax bracket.

Now, what about the person who is not saving anything toward retirement? Education is the key to assist them in eliminating the roadblocks. During many financial seminars delivered throughout the country, people have suggested the following painless ways that could save up to $100 per month:

- Eliminate one beverage or snack each day,
- Rent movies occasionally rather than go to the theater,
- Dine out one less time a week,
- Pack a lunch, or
- Carpool.

Some ways to save a larger amount of money include:

- Drive the car another year instead of purchasing a new one, and/or
- Combine homeowners and auto insurance under the same carrier for reduced rates.

If invested in a pre-tax, tax-deferred plan, this "newly found" money can be used to reduce the Retirement Income Gap.

Different Styles of Investing

No single approach to education will work since consumers are not a homogeneous population. They tend to break down into three different types:

1. Independent traders: About 10% of employees profit from a "high tech" approach. They don't need a lot of personal education because they are very knowledgeable.

2. Active Investors: Approximately 30% of the population are active investors. Access to investment seminars, 800 numbers, and investment education materials ("group touch") will allow these people to manage their investment program.

3. Passive Savers: The vast majority of employees (60%) are people who either don't have the time or the interest to track their investments. They need a "high touch" approach to investing on an individual

basis.

RetireNet

Another tool we use to educate the public is our website, which offers several newsletters on-line to help educate Americans.

Conclusion/Recommendations:

As the chart illustrates, colleges and universities have the highest participation rate because they offer matching plans as well as targeted education for all three investment styles. In contrast, state and local governments have largely voluntary plans with no savings match, and their employee participation rate is the lowest of any group in this chart.

In conclusion, we urge Congress to consider ways to:

1. Encourage all American employers to establish a matching savings plan,
2. nform employers about the need for education geared toward the different styles of investing,
3. Extend tax-deferred IRA availability to all taxpayers, and
4. Motivate consumers to action: Save Early, Save More, and Save Now!